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**David R. Goode**  
Chairman and  
Chief Executive Officer

July 15, 2005

**Chairman Roger Nober**  
**Surface Transportation Board**  
**1925 K Street**  
**Washington, D.C. 20423-0001**

**Dear Chairman Nober:**

**This is in response to your letter of June 15, 2005 concerning “Fall Peak Service Demands and Infrastructure Improvements.”**

**I. Overview**

**Our expectations with respect to the Fall Peak are similar to those described in the letter sent to you last year. As you know, rail traffic volumes have been at record levels. We have seen no indications that this will change and therefore anticipate that traffic volume will be heavy during the Fall Peak. Because we believe that demand for our services will remain high, we have increased capacity by purchasing locomotives, increasing our repair and rebuild programs, hiring more crews and improving both our physical infrastructure and the way we utilize that infrastructure. We have planned and continue to plan for growth. We also recognize that the economy can surprise us and we may see volumes beyond those we have anticipated. While we always expect to face challenges as we strive to meet the demands of our customers during the Fall Peak, we expect to be able to handle the volume safely and efficiently.**

**This letter assumes no significant changes in the legislative landscape. Should state or local governments succeed in banning or otherwise restricting the routing of hazardous materials, the consequences for the rail network will be both adverse and significant. Should Congress make significant changes in Amtrak or its operations, the transportation of freight on our network could be adversely impacted, and we all need to watch those developments closely so as to protect freight service for our customers.**

## **II. Traffic Expectations for the Fall Peak**

**While intermodal volumes are expected to be strong overall during the Fall Peak, it is important to note that the flows and equipment of choice will be different. During 2004 and the first half of 2005, many of the international steamship lines added ship capacity to their Asia/US East Coast services, as U. S. West Coast services have been, and are expected to remain, at capacity. This drives new business growth on our local services. In addition, last year's congestion at the Pacific Southwest ports caused many of the steamship lines to shift vessel calls to ports in Northern California and the Pacific Northwest. Given the lack of transload capacity in these areas, a larger share of the business is now moving intact in steamship line containers, at the expense of domestic volumes. Also, as railroad trailer pools are significantly reduced, there will be an increased demand for container and stack car types. We are planning in expectation of these changes.**

**From an automotive perspective, production at North American assembly plants is projected to be flat during the second half of 2005 when compared to 2004. NS carloads are projected to decrease somewhat as Big 3 production declines year over year.**

**Coal volumes should remain at their historically high levels during the remainder of 2005. In fact, volume in the fourth quarter of last year set what was then a new quarterly record. That record was surpassed in the second quarter this year, demonstrating that the NS network is capable of efficiently handling progressively higher peak volumes. In short, we will be able to handle anticipated volumes.**

**Coke and Iron Ore volumes will remain weak during the 2005 Fall Peak. Utility coal stockpiles have improved for a majority of NS served utilities from the low levels seen in the previous 6 months. Coal supply continues to be tight, especially in the coal supply regions NS serves, challenging the coal mining companies to expand production. Demand for metallurgical coal has weakened somewhat as a result of weaker steel demand worldwide. This means that there may not be further peaks for export and domestic metallurgical volume this year; rather, we should see consistent demand. The combination of new movements of imported coal on NS and the continued purchase of coal from non-traditional origins by NS-served utilities continues to challenge the traditional coal supply chain as distances from coal sources to coal consumption points lengthen and new origins fall outside normal empty coal car staging areas.**

At NS, Industrial Products include everything other than Coal and Intermodal & Automotive. The major commodity groups within Industrial Products are (i) Agriculture, Fertilizer and Consumer, (ii) Chemicals, (iii) Metals and (iv) Paper, Clay and Forest. We anticipate continued strong demand in our Industrial Products business but do not anticipate any unusual demands to develop.

### **III. Operational Planning**

The TOP (Thoroughbred Operating Plan) is the responsibility of the TOP Steering Committee, a group of senior managers from Operations, Marketing, Information Technology, Strategic Planning and Finance. As a matter of routine we make periodic changes to the plan due to changes in business. We are accustomed to anticipating more volume in the fall, and as a result we tend to make somewhat more changes to the plan for the Fall Peak than for other times of year.

Earlier this year, Norfolk Southern embarked on a complete review of TOP to assure that the operating plan had sufficient capacity for our current business mix, volumes, and expected growth. Dubbed "TOP II", the plan also incorporates intermodal and some scheduled unit trains in order to improve locomotive distribution and improve line segment efficiencies. One of the primary purposes of the TOP II review is to add train capacity where needed to handle projected growth, including peak fall volumes. TOP II was developed using Norfolk Southern's Operating Plan Developer system, a network operating model that allows us to measure the expected impact of changes to the network or changes in volume or traffic mix. The new TOP II train plan is now complete, and will be fully implemented by September 2005, ahead of the Fall Peak.

In August 2004 NS reopened Sevier Yard in Knoxville, TN as a major classification terminal. The humping operation at Sevier Yard added additional capacity to the NS Network allowing for increasing volumes from the western gateways, Kansas City and St Louis, to the Southeast via Knoxville. Further improving the flow of traffic from the western gateways, a new siding at Sidney, Illinois, will be in service by August 1, 2005.

In anticipation of increased business levels, we continue to expand and improve our locomotive fleet. Through the Fall Peak, we will be leasing on a short-term basis 137 locomotives. We are continuing our long-term leases on 150 locomotives to maintain maximum locomotive availability. In 2004, we purchased 207 locomotives; 92 of the 207 new units we acquired in 2004 were not available for the full peak season but will be for 2005. In addition, we ordered another 52 units

late last year for delivery for the 2005 peak season and more recently contracted for another 50 new locomotives which will be delivered later in 2005. Further, we have temporarily suspended the retirement of older locomotives and worked to return all available units to service. We will likely prioritize the use of our fleet in order to handle anticipated business volumes to keep our scheduled network running.

We review our crew needs on a monthly basis using computer-modeling techniques. In the last couple of years we stepped up hiring to offset expected retirements and meet projected volume growth. In 2003, NS hired 1,329 conductor trainees and trained 156 locomotive engineers. In 2004, NS hired 1,441 conductor trainees and trained 330 locomotive engineers. To meet continued growth, we expect to hire 2,400 conductor trainees and to train 706 locomotive engineers in 2005.

With increasing demand, car shortages have been and will continue to be an issue in several commodity areas. To help address increased demand for rail equipment we have taken a number of steps to increase the number of railcars available to our customers. We have enhanced our car repair efforts - our current schedule of 15,876 scheduled car repairs in 2005 represents a 30% increase over our 2004 repair program. We have renewed expiring equipment leases covering 1,148 cars and we plan to renew leases for 1,208 cars that expire later in 2005. We also plan to buy-out a lease that expires this year that includes 195 insulated boxcars. In 2005, we have acquired through new leases 220 covered coil cars, 100 60-ft, Plate F Boxcars and 150 50-ft boxcars. Fleet utilization has improved in 2005 as a result of the continued planning and monitoring of the network by the TOP Steering Committee. In addition to these utilization initiatives, distribution processes have been improved by converting customer location pools into free-running pools where feasible, thus reducing empty repositioning time and miles. Norfolk Southern has also increased its car-prepping contractors from 23 at the end of 2004 to 25 to date. These contractors are located at strategic locations to address car quality issues prior to car placement. This effort has reduced the number of rejected cars and unproductive car days to reposition cars for cleaning and prepping.

We will judge our performance by a number of factors. We will look first at the safety of our operations. We will look at the metrics we make available to the public such as cars on line, terminal dwell and train velocity. In addition, we will constantly review the on-time performance of our customer service and listen to what our customers have to say about our service. And of course we will balance the costs we incur with the revenues earned.

#### **IV. Communications**

We do not anticipate any changes in how we communicate to our customers. Communications continue to be through email advisories, phone conversations and in person, including at sessions sponsored by the railroads or shippers. As we expect the increase in traffic volumes to be moderate and our service levels to be sustained, we believe the frequency of our communications will not increase significantly. As always, we will put a high priority on communicating with our customers and the Surface Transportation Board as changes develop.

#### **V. Infrastructure and Capital Expenditures**

NS makes large capital expenditures to maintain and expand its infrastructure. Since 2000, NS capital expenditures have totaled approximately \$5 billion. This includes over \$135 million for more sidings, longer sidings, double track, and clearances. The great majority of those expenditures have been necessary to improve our physical plant and locomotive fleet since it is critical to keep the existing infrastructure in condition to handle the larger volumes currently moving over our network.

Infrastructure improvements are evaluated in light of (i) the extent to which such improvements will increase safe and efficient rail operations, (ii) projected traffic levels and (iii) the value of other competing requests for capital dollars. Over the past year we have focused our infrastructure capacity additions on key growth corridors, including, Butler, IN to Decatur, IL (the last of four projects to be completed in the third quarter of 2005); the north end of the Georgia Division between Chattanooga and Atlanta (to be completed in September 2005); and Memphis, TN to Chattanooga, TN (completed in 2004). Our current planning focus for 2006 is additional infrastructure on the line between Memphis and Chattanooga; additional capacity on the north end of the Georgia Division between Chattanooga and Atlanta; Columbia, SC to Charleston, SC; Fort Wayne, IN to Cincinnati, OH; Manassas, VA to Harrisburg, PA; and completion of a siding on the Penn Route in NJ.

Capacity can also be expanded by means other than capital dollars. For example, we expect our new operating plan (TOP II), to allow us to handle more freight using the same amount of resources. And dollars paid to hire, train and pay crews are not capital dollars, but the additional crews certainly expand our capacity.

**Chairman Roger Nober**  
**July 15, 2005**  
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**We appreciate your continuing attention to freight transportation issues as we all work to handle the continuing and unprecedented growth in the rail transportation business.**

**Sincerely,**

A handwritten signature in black ink, appearing to read "David R. Goode". The signature is fluid and cursive, with a large initial "D" and "G".

**David R. Goode**